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C O N F I D E N T I A L SECTION 01 OF 02 KIRKUK 000082

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BAGHDAD FOR ECON, POL, FCS, NCT, FCS, USAID

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TAGS: [EPET](#) [ENRG](#) [ECON](#) [EINV](#) [PGOV](#) [PINR](#) [IZ](#)

SUBJECT: GAS/OIL REFINERY TO BE BUILT IN KURDISH REGION

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CLASSIFIED BY: Scott Dean, Acting Regional Coordinator, REO
Kirkuk, DoS.
REASON: 1.4 (b), (d)

¶1. (C) Summary: Iraqi KAR Group CEO Baz Karim discussed bids for two new oil refineries, including the first in the Kurdistan region, slated for Koia, Sulaymaniyah Province. Karim also requested advocacy from the United States for KAR's bid on the proposed \$1.3 billion Al-Nahrian Refinery, in central Iraq, submitted in partnership with a consortium of U.S. companies. Also, Karim alleged that U.S. business partners' higher-profile relationships with KAR have led to a spate of recent kidnappings of KAR employees. End Summary.

¶2. (C) Iraqi businessman Baz Karim, CEO of KAR Group, met with USAID Regional Representative Brad Camp and IPAO to discuss KAR's current and proposed projects in the oil industry. Karim said that he was informed personally by the Director of the Oil Institute, Sarbaz Hawrmy, that all ten of the oil development projects in the region would be tendered out within the next six months, including the Koia and Al-Nahrian refineries. Karim said the Ministry of Oil had budgeted \$300 million each to Koia and Al-Nahrian refineries for the first stage of construction.

Koia Refinery - A First for the Kurdistan Region

¶3. (C) According to Karim, the Ministry of Oil in Baghdad would select one of six bids tendered for the Koia Refinery by the end of April. The refinery would be located 20 km southwest of Koia city. He said the central government had agreed to pay for the project, while the Kurdish Regional Government (KRG) in Sulaymaniyah would eventually take it over. Karim estimated construction would take at least 3 years. He said well-placed Kurds in Baghdad were pushing for the Koia refinery, but that it was unclear if non-Kurd Iraqis supported it or not.

¶4. (C) Karim said the Koia Refinery was expected to have a refining capacity of 70,000 BBL/D of crude oil. The Taq Taq Oil Fields would supply 30-40,000 BBL/D, which currently were sent to Turkey for refining. The refinery would produce regular and premium gasoline, kerosene, gas oil, LPG and fuel oil. KAR would be responsible for procurement, engineering, and management of construction.

Al-Nahrian Refinery: Request for Advocacy

¶5. (C) Kamrin asked for U.S. advocacy on KAR's bid for the \$1.3 billion Al-Nahrian Refinery. KAR had formed a "dream team"

consortium with U.S. companies CBI Howe-Baker, ABB Lummus Global, Mustang International, River, and Turner & Mason. He said that he did not believe there would be the minimum three bidders required by the Ministry of Oil, which would send the bid back to the tendering stage and risk the \$300 million budgeted to the project for 2006. (Subsequently, Karim said there were no other bidders.) Karim said he was concerned that if the money were not allocated this year, it would "disappear." He said the government could legally waive the "three bid" requirement. An additional bidding cycle would probably open the door to a Chinese bid.

¶6. (C) According to Karim, the Al-Nahrian Refinery is to stand 70 km northwest of Baghdad. He said the refinery would be capable of processing 140,000 BBL/D of Basra regular crude oil or Mishrif crude oil and produce regular and premium gasoline, kerosene, gas oil, LPG and fuel oil. KAR and the members of the consortium would each be responsible for the engineering and construction of a portion of the site's 17 processing units and supporting utility and offsite facilities.

Kidnappings Issues Plague KAR

¶7. (C) In three recent instances, Karim said, kidnappers had targeted KAR employees. Earlier this year, the manager for a project near Hawijah was kidnapped for two weeks. KAR did not negotiate with kidnappers; however, he said, the family negotiated the ransom down from \$150,000 to \$35,000 and KAR gave them the funds. Also, the project manager of a major KAR fiber optics project in Baghdad was kidnapped and killed, despite payment of ransom. Finally, two engineers were kidnapped, but rescued at a U.S. checkpoint when the cars were searched.

¶8. (C) Karim said that in KAR's previous partnerships with USAID and the U.S. military on reconstruction projects, a low-profile approach to their relationship had protected them. He said that KAR's current U.S. partners heightened the danger for the Iraqis

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working with them by micromanaging to the extent of endangering locals on site. Karim said that a low-profile relationship allowed people to work and make a living safely, while completing the work successfully.

Biography Notes

¶9. (SBU) Baz Karim is a member of the Kurdish Barzengi Tribe, which he describes as 'commercial' and not interested in politics. He shied away from political discussion when asked about interference by PUK and KDP in commercial affairs and corruption. The Barzengi are a very large tribe, split throughout Sulaymaniyah, Erbil, and Kou Senjaq, and have a good relationship with both the Barzani and Talabani tribes. According to Karim, his grandfather, Shaykh Mahmud, would have been king if the British had not given the throne to King Faisal.

Comments:

¶10. (C) It is significant that the Koia Refinery has reached the bidding stage. However, the project is unlikely to win funding unless parties at least agree that the same party who pays for the refinery -- whether that is the central government or the KRG -- gets to keep it. Karim's request for advocacy for the Al-Nahrian refinery bid has merit, if there are no competing American bidders now and the possibility of Chinese bidders if the process reverts back to the bidding stage. End Comments.
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